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June 16, 2008

AGENDA ITEM 5

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Revision of Global Principles of Accountable Corporate Governance
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of revised Global Principles of Accountable Corporate Governance.
- IV. ANALYSIS:**

Executive Summary

CalPERS' Global Principles of Accountable Corporate Governance ("Global Principles") support the execution of proxy voting decisions, engagement of portfolio companies, and implementation of Corporate Governance Program initiatives to maximize Total Fund investment returns. Through this agenda item, Staff is recommending three Global Principles amendments and the deletion of two Global Principles. Revisions include direction to Staff from the Investment Committee (IC Meeting: April 21, 2008) to amend the Corporate Responsibility section of the Global Principles for the purpose of including reference to the 14-point Ceres Climate Change Governance Checklist. Amendments and deletions are summarized in Tables 1 and 2 below. The complete Global Principles document with revisions is attached (Attachment 1). Attachment 2 is Wilshire's opinion letter recommending that the Policy Subcommittee approve the revised principles.

Background

CalPERS' Global Principles allow staff to efficiently and effectively implement its Corporate Governance Program responsibilities. Staff executes all proxy voting instructions, portfolio company engagement and corporate governance initiatives in a manner that is consistent with the Investment Committee's ("Committee") Global Principles. The Committee has adopted a process by which staff must, at a minimum, elevate CalPERS' Global Principles to the Committee through the

Policy Sub-Committee within the first quarter of each calendar year. However, staff has the flexibility to bring revisions to the Global Principles as needed or as directed by the Committee throughout the year.

Global Principles of Accountable Corporate Governance

Recommended revisions include template formatting and language improvements, amendments to existing principles, and principle deletions. Formatting and language improvements include revisions to section B.3 emphasizing the positive linkage between a company's compensation program and shareowner interests while accentuating the importance of shareowner input and dialogue relative to the design of compensation programs. Table 1 summarizes three recommended amendments to existing principles that address external audit firm selection provisions and environmental disclosure. Table 2 summarizes two recommended deletions of an existing principle.

Table 1
Principle Amendments

Market	Identifier	Page	Topic	Principle Amendment
Domestic	B.4.8	15	Auditor Selection	Adds language on disclosure to the board's audit committee. Requires auditors to provide 3 years of history on their dealings with the company to assist the assessment of auditor independence.
Domestic	B.5.2	16	Environmental Disclosure	Adds language referencing the 14-point Ceres Climate Change Governance Checklist as directed by the Committee.
Domestic	B.6.2	17	Majority Vote Standard	Adds language to incorporate a director resignation requirement upon receiving greater than 50% of shareowner votes cast.

Table 2
Principle Deletions

Market	Identifier	Page	Topic	Principle Deletion
Domestic	B.1.7	8	Corporate Insiders	Deletes this specific principle limiting the role of corporate insiders on the board. This principle is redundant given Appendix B. Pg. 50
Domestic	B.6.4	17	Director Removal	Deletes this specific principle on director removal by shareowner action. The content of this principle has been moved to principle B.6.2.

Upon adoption of staff's recommended revisions, staff will update CalPERS' Global Principles of Accountable Corporate Governance.

V. STRATEGIC PLAN:

This item supports Goal VIII to manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

Costs associated with this item are expected to be minimal and can be absorbed within the Investment Office budget.

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